A yellow school bus is parked on a street. The bus is facing towards the right of the frame. In the background, there are trees and a brick building. The sky is overcast.

Comprehensive Annual Financial Report

City of Portsmouth, Virginia School Board
A Component Unit of the City of Portsmouth, Virginia

For the Fiscal Year Ended June 30, 2007

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**City of Portsmouth, Virginia School Board
Component Unit of the City of Portsmouth, Virginia**

For the Fiscal Year Ended June 30, 2007

Prepared by the Department of Finance

**Meera Phaltankar, CPA
Director of Finance**

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
COMPONENT UNIT OF THE CITY OF PORTSMOUTH, VIRGINIA
June 30, 2007**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTORY SECTION		
Transmittal Letter		iv-ix
Members of the School Board and School Board Officials		x
Certificate of Excellence in Financial Reporting – Association of School Business Officials International		xi
Organization Chart		xii
FINANCIAL SECTION		
Independent Auditors' Report		1-2
Management's Discussion and Analysis (Unaudited)		3-11
Basic Financial Statements:		
Government-Wide Financial Statements		
Statement of Net Assets – Governmental Activities	I	12
Statement of Activities – Governmental Activities	II	13
Fund Financial Statements		
Governmental Fund Financial Statements:		
Balance Sheet – Governmental Funds	III	14-15
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	IV	16-17
Proprietary Funds Financial Statements:		
Statement of Net Assets – Proprietary Funds	V	18
Statement of Revenues, Expenses and Changes in Fund Net Assets (Deficits) – Proprietary Funds	VI	19
Statement of Cash Flows – Proprietary Funds	VII	20

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
COMPONENT UNIT OF THE CITY OF PORTSMOUTH, VIRGINIA
June 30, 2007**

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Assets and Liabilities – Agency Fund	VIII	21
Notes to Basic Financial Statements	IX	22-34
Required Supplementary Information Other Than Management's Discussion and Analysis (Unaudited):		
Budgetary Comparison Schedules:		
General Fund	X	35
School Grants Fund	XI	36
School Food Services Fund	XII	37
Schedule of Funding Progress for Defined Benefit Pension Plan	XIII	38
Notes to Required Supplementary Information	XIV	39
Supplementary Information:	<u>Schedule</u>	
Internal Service Funds:		
Combining Statement of Net Assets	1	40
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets (Deficits)	2	41
Combining Statement of Cash Flows	3	42
Agency Fund – Student Activities:		
Schedule of Changes in Assets and Liabilities	4	43
STATISTICAL SECTION (Unaudited)	<u>Table</u>	
Net Assets by Component	1	44
Changes in Net Assets	2	45
Fund Balances, Governmental Funds	3	46
Changes in Fund Balances, Governmental Funds	4	47

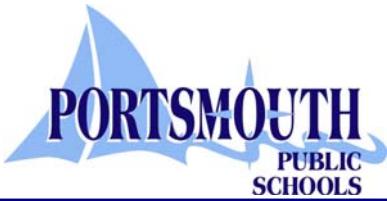
**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
COMPONENT UNIT OF THE CITY OF PORTSMOUTH, VIRGINIA
June 30, 2007**

TABLE OF CONTENTS

	<u>Table</u>	<u>Page</u>
Demographic and Economic Statistics	5	48
Own-Source Revenue	6	49
Employees by Class Code	7	50
Teachers – Total Number, Average Age, Average Salary	8	51
Capital Assets Statistics	9	52
School Building Information	10	53-56
Principal Employers	11	57
Operating Statistics	12	58

COMPLIANCE SECTION

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	59-60
---	-------



Department of Finance

P. O. Box 998

Portsmouth, Virginia 23705-0998

757-393-5072 / 757-393-8017

November 27, 2007

School Board Members

And the Citizens of the City of Portsmouth, Virginia:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of Portsmouth, Virginia School Board (PPS) for the fiscal year ending June 30, 2007. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the management of PPS. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Governmental Activities and various funds of the School Board. All disclosures necessary to enable the reader to gain an understanding of the School Board's financial activities have been included.

For financial reporting PPS is a component unit of the City of Portsmouth, Virginia (the City), and, accordingly, the financial position and results of operations of PPS are also reflected in the financial statements included in the City's CAFR. An annual audit of the books of accounts, financial records and transactions of all the departments of the school division has been performed by Cherry, Bekaert & Holland, L.L.P., Certified Public Accountants. The auditors' reports which include their unqualified opinion on the basic financial statements of the school division are included herein.

The CAFR is presented in three sections:

Introductory Section - includes the table of contents, an organizational chart, a list of the School Board Members and principal officials and the transmittal letter. This is an unaudited section.

Financial Section - includes the Independent Auditors' Report, Management's Discussion and Analysis (MD&A), Basic Financial Statements, Notes to the Basic Financial Statements, Required Supplementary Information, other than MD&A, Notes to Required Supplementary Information and Combining Statements for Internal Service Funds. MD&A is management's narrative overview and analysis of the financial statements, which should be read in conjunction with this letter of transmittal. The basic financial statements and the notes to the financial statements are audited.

Statistical Section – includes selected financial and demographic information. This section is updated to incorporate GASB 44 statement issued May 2004 and effective after June 15, 2006 for Economic condition reporting.

Compliance Section – included the auditors' report on internal control over financial reporting and on compliance and other matters.

Generally Accepted Accounting Principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of MD&A. This Transmittal Letter is designed to complement MD&A and should be read in conjunction with it.

The School Board of the City of Portsmouth is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996. Information related to this single audit, including the Schedule of Expenditures of Federal Awards, finding and recommendations, if any, and auditors' reports, are included in the City of Portsmouth's Comprehensive Annual Financial report.

The Reporting Entity and Organization

Founded in 1752, the city of Portsmouth, Virginia is an urban core city situated at the center of Hampton Roads, the country's 33rd largest Metropolitan Statistical Area with over 1.5 million residents. The landlocked city encompasses 29.9 square miles of real property of which 54% is tax exempt due in large part to military installations.

The School Board's responsibility is the education of elementary and secondary students within the city. The nine-member School Board is elected by the Portsmouth citizens and serves a four year term. The School Board is entrusted with the responsibility of hiring the school division's superintendent. The City Council approves the School Board's operating budget, levies the necessary taxes to finance their portion of the operations, and approves the borrowing of money and issuance of bonds when necessary. The City Council is prohibited from exercising any control over specific appropriations within the operating budget of the School Board. However, City Council may exercise control in total by major categories (e.g., Instruction; Administration, Attendance and Health; Pupil Transportation; Operations and Maintenance) as prescribed by the Code of Virginia, as amended.

Economic Condition and Outlook

According to 2006 statistics, Portsmouth has a population of 99,546 of which 52.4% is African-American, 43.5% is white, and 4.1% other. Over the past ten years, the African-American population increased by 7.7%, while the white population decreased by 6.1%. PPS serves 14,990 students in 2 pre-k centers, 14 elementary schools (12 are Title I schools), 3 middle schools, 3 high schools, and one special education center, an alternative school, an adult learning center, and a career and technology center. Based on the 2006-2007 Title I Eligibility Index, prepared by the PPS Office of Research and Evaluation, 57% of our student population lives in poverty according to the free/reduced price lunch indicator. Almost 73% of our students are African-American. School wide, 15% of all students are identified as having special needs. Dropouts per 1000 students prior to 9th grade for Portsmouth were 11 compared to 5 statewide (Portsmouth Comprehensive Prevention Plan 1999-2005). In the 2006-07 school year, there was a total of 3,882 suspensions school wide.

School System

PPS operates 26 schools with an enrollment count of 14,990. There are approximately 2,400 employees.

Magnet Programs

The division offers six magnet programs:

Visual and Performing Arts: Emphasizes academic excellence, artistic development, intensive study of vocal and instrumental music, visual arts, and dance.

Mathematics, Science, and Aerospace Technology: Prepares students for occupations in physical and life sciences, biochemical technology, engineering, aeronautical research, and other related areas.

International Studies: An honors-based, liberal arts program preparing students to compete in the global community.

The Aerospace Place: Emphasizes mathematics, science, and technology with an aerospace theme promoting critical thinking and problem-solving skills.

Earth and Space: Promotes critical and analytical thinking, problem-solving, experimentation and independence learning by integrating mathematics, science and technology.

Montessori Education: Meets the individual needs of each student, develops the child's self-esteem and cultivates the child's natural desire to learn.

First College Program

The First College Program in Portsmouth is designed for qualified high school seniors who plan to attend a college or university after they graduate from high school. The program offers seniors an opportunity to earn 19 semester hours of college credit courses prior to graduation from high school. The courses offered in this program are part of the State Council of Higher Education for Virginia "Commonwealth College Course Collaborative," a collection of courses that public colleges and universities in the Commonwealth have agreed to accept as meeting part of the college's general education requirements. The enrollment in First College increased from 19 students in 2005-06 to 72 students in 2006-07.

Title I Parent Center

The Title I Parent Center is designed to develop a home-school support system to promote parent involvement with school personnel in the education of their children. The goal of the center is to enable parents to work more effectively with their children at home in an effort to reinforce what has been learned in school. Any parent or legal guardian of a child in a Title I school can use the Title I Parent Center. All materials, equipment, and information will be provided by the center free of charge.

Raise A Reader Program

Raise A Reader is a research-based program facilitated by the United Way that has received national acclaim because of its proven results in increasing the school readiness scores of participating children in the areas of print knowledge, reading comprehension, and book knowledge. Raise A Reader is a take-home book bag program that promotes daily book sharing between parents and their preschool age children. Children, through their classroom and childcare settings, receive bright red book bags with four multi-cultural books on a weekly basis. These bags are rotated through the classroom, allowing each child to take home four new books each week.

Wett Academy

The goal of Wett Academy is to increase teacher knowledge and skills by integrating technology and science with special emphasis on wetlands. The goal is to pilot innovative uses of technology and establish PPS as a leading center for Science and Technology integration. The Program will train teachers in the integration of geospatial technology into the Sciences. (Grant funded)

STAR

Supporting Teachers Advancement through Robotics is an extension of a very successful project involving the Office of Naval Research and several school systems in other parts of the state. Focus is on the middle school using ROBOTICS. The goal is to develop student interest in mathematics, science, and engineering. The summer course is offered at William and Mary and is a graduate level course for two credits, and the tuition is paid by the STAR project. In addition, the teachers will receive a stipend to compensate for expenses incurred while attending the class. Students will learn to build a LEGO Mindstorm Robot. (Grant funded)

Starbase-Atlantis

Starbase-Atlantis is a fast-paced educational program designed for sixth graders. The five day program offers a hands-on, math and science experience through fieldtrips to military bases to meet people who use these skills daily, through experiments and activities. The program also builds self esteem and includes elements of goal setting, drug abuse prevention and teamwork.

Starbase Atlantis in PPS is a private venture because it is a partnership between the school system, community leaders and the United States Navy. By law, only two programs per state can be funded by the Department of Defense and there is a federally funded program in Norfolk. Portsmouth's Starbase Atlantis program is the only privately funded program in the country. Each year, STARBASE-ATLANTIS graduates over 500 students and will be expanding into a summer program this year.

AC Thirteen

AC Thirteen, a new way of looking at high school began in spring of 2006. It is an amalgam of ideas stemming from the belief that high school graduation is not a goal. Planning and curricula development have been completed and plans are underway to pilot them during 2007-08 academic year – Identity through the Arts, Biotechnology foundations, Russian, Discrete Mathematics, Early Childhood education and Hotel/Motel marketing.

Algebra Readiness Academy

The Algebra Readiness Academy is a student enrichment program offered during the summer for rising 7th and 8th grade students. The purpose of this program is to provide students an opportunity to strengthen the skills in mathematics needed for successful achievement in Algebra. The academy is scheduled in two 3-week sessions with four mathematics instructors and four teacher assistants serving a maximum of 160 students.

Elementary Mathematics Specialist Project

The school division is a participant in an NSF (National Science Foundation) grant supported project, in collaboration with other Virginia school divisions and universities, to prepare teachers to serve as school-based mathematics specialists, K-5. The two-year training program consists of five graduate level courses in mathematics content and three graduate level courses in mathematics education. Two teachers have successfully completed this training and are assigned as mathematics specialists in two elementary schools. Two other teachers have begun the training and are scheduled to complete the program in August 2008.

The Renaissance Elective

The Renaissance elective is a humanities unit in charge to provide general cultural knowledge that focuses on literature, languages, history, and the fine arts. FY06-07 was used as a planning phase, where organizational meeting were held to develop a syllabus and curriculum.

STEM

The Department of Curriculum and Instruction is in process of developing Science, Technology, Engineering and Mathematics (STEM) pathways program. This unique learning opportunity is an activity-based and problem-based learning during the regular school day compared to traditional program. The program will concentrate on biotechnology, robotics and geospatial technologies.

Science Initiatives

The Office of Science is in process of developing science lab at Victory Elementary for science projects. The Science lab is scheduled to open at the beginning of the new academic year.

Students attended OceanQuest, a Marine Biology camp. Nauticus ran the program; it was funded by Beazley Foundation and was partnered with Virginia Marine Science Museum, Virginia Port Authority, Army Core of Engineers, and Chesapeake Bay Foundation.

National Board Certified Teachers

NBC is a demonstration of teaching practice as measured against high and rigorous standards. It is a symbol of commitment to excellence in teaching. NBC is offered on a voluntary basis to teachers with at least three years of teaching experience. There are currently over 47,000 National Board Certified teachers in 50 states, overseas, and the District of Columbia. PPS has two NBC teachers.

98% Highly Qualified Teachers for the 2006-2007 School Year

The Instructional Personnel Verification Report (IPAL) is an annual report required by the State Department of Education that reflects the school division's data on teacher licensing. The information will be reported on the Virginia School Report Cards for the 2006-2007 year. It provides a snapshot of state performance targets for highly qualified teachers ensuring that all teachers who teach in a federal core academic subject are highly qualified. Highly qualified teachers in PPS increased from 91% in FY06 to 98% in FY07.

Partnership with Regent University

A partnership with Regent University and PPS was established to identify teachers as future leaders in school administration. This two year program will enable teachers to obtain a master's degree in administration and supervision. Teachers were recommended by their principals to participate in the program. The need for strong administrators is indicative of the fact that over half of our current principal and assistant principal population is close to or over thirty years in education. Within the next five years, PPS could experience an administrative shortage. Currently, there are approximately 20 teachers enrolled in the program.

State of the Art Ritz Carlton Customer Service Training

All clerical employees were selected to attend the "Back To Basics" – Ritz –Carlton Style" customer service seminar. This Program is a highly interactive class designed just for them. It focuses on very important elements of delivering excellent customer service. Attendance of this seminar was mandatory. Some of the program highlights included understanding what customers want, an in depth review of The Ritz Carlton 20 (Rules to live by), the importance of being a positive ambassador, office etiquette and a personal copy of *The Grammar Reference Guide*.

Partnership with Troops to Teachers

The Department of Human Resources has developed a partnership with Virginia Wesleyan University and Troops to Teachers in order to provide early incentives and early commitments to military personnel and teachers seeking licensure and teaching positions.

Financial Information

Management is responsible for establishing and maintaining an internal control structure. It is designed to provide reasonable, but not absolute, assurance. Reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits require estimates and judgments by management. A component of internal control structure should increase the probability that material errors or fraud that occur are detected in a timely manner by employees in the normal course of performing their duties.

PPS management maintains budgetary controls to ensure compliance with the annual appropriated budget adopted by the School Board and City Council. The school division maintains an encumbrance accounting system as a method of accomplishing budgetary control. Outstanding encumbrances at the end of the fiscal year are generally reappropriated as a part of following fiscal year's operating budget. The School Board has adopted budgets for the following funds – General, Text Books, Grants, Food Services, Capital Projects, Printshop, and Risk Management. The School Board and City Council adopts School Operating Budget by March and April respectively for the upcoming fiscal year.

PPS pays the City a yearly fee to manage the School Board's risk management program. The School Board is "fully insured" for auto liability and for general liability through the Virginia School Board Association. For Workers Compensation, The School Board carries an excess policy, with a self-insured retention of \$400,000. Workers Compensation claims are handled by PMA, a third party claims administrator.

The treasurer is the custodian of pooled cash and temporary investments, funds held for student activity accounts and related investments except funds under Escrow agreement for the Energy Retrofit capital project. Our Financial Institution keeps minimum required balance in general depository account and invests the excess in Institutional Money Market Fund. The investments are in compliance with industry-standard requirements for money market funds for quality, maturity and diversification on investments. Interest earned is allocated among all the funds based on General Ledger cash balances at the end of the month.

Certificate of Excellence

The Association of School Business Officials of the United States and Canada (ASBO) awarded Certificate of Excellence in Financial Reporting for Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. The Certificate of Excellence is valid for a period of one year only.

The Financial Reporting Award was designed by ASBO International to enable school business officials to achieve a high standard of financial reporting. The award is only conferred to school systems that have met or exceeded the standards of the program. Since its inception in 1972, the program has gained the distinction of being a prestigious national award recognized by accounting professionals, underwriters, securities analysts, bond rating agencies, state and federal agencies, and education, teacher, and citizen groups.

The Association of School Business Officials International, founded in 1910, is a professional association, which provides programs and services to promote the highest standards of school business management practices, professional growth, and the effective use of educational resources.

Acknowledgements

We would like to express our sincere gratitude to the personnel in the Department of Finance who participated in the preparation of this report and to our independent auditors, Cherry, Bekaert & Holland, L.L.P. Appreciation is also extended to the School Board and the administration, whose continuing support is vital to the financial health of the school system.

Respectfully submitted,

Superintendent

Assistant Superintendent for Budget and Planning

Director of Finance

**CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
COMPONENT UNIT OF THE CITY OF PORTSMOUTH, VIRGINIA**
June 30, 2007

Members of the School Board and School Board Officials

School Board

Mr. James E. Bridgeford.....Chairman
Mrs. Linda A. Ridenour.....Vice Chairman
Ms. Sheri H. Bailey
Dr. Elizabeth Daniels
Mr. James M. Hewitt, IV
Mrs. Elizabeth N. "Betty" Hudgins
Mr. B. Keith Nance, Sr.
Mrs. Jean H. Shackelford
Dr. Mark M. Whitaker

Officials

Dr. David C. Stuckwisch.....Superintendent
Mr. Daniel PendarvisAssistant Superintendent for Budget and Planning
Dr. Patricia H. Fisher.....Assistant Superintendent for Curriculum and Instruction
Mrs. Meera Phaltankar, CPA.....Director of Finance
Mrs. Kathy L. ChamblissClerk of the School Board
Mrs. Laura Chandler.....Deputy Clerk of the School Board
Mr. James L. WilliamsCity Treasurer

ASSOCIATION OF SCHOOL BUSINESS OFFICIALS INTERNATIONAL



This Certificate of Excellence in Financial Reporting
is presented to
City of Portsmouth, Virginia School Board

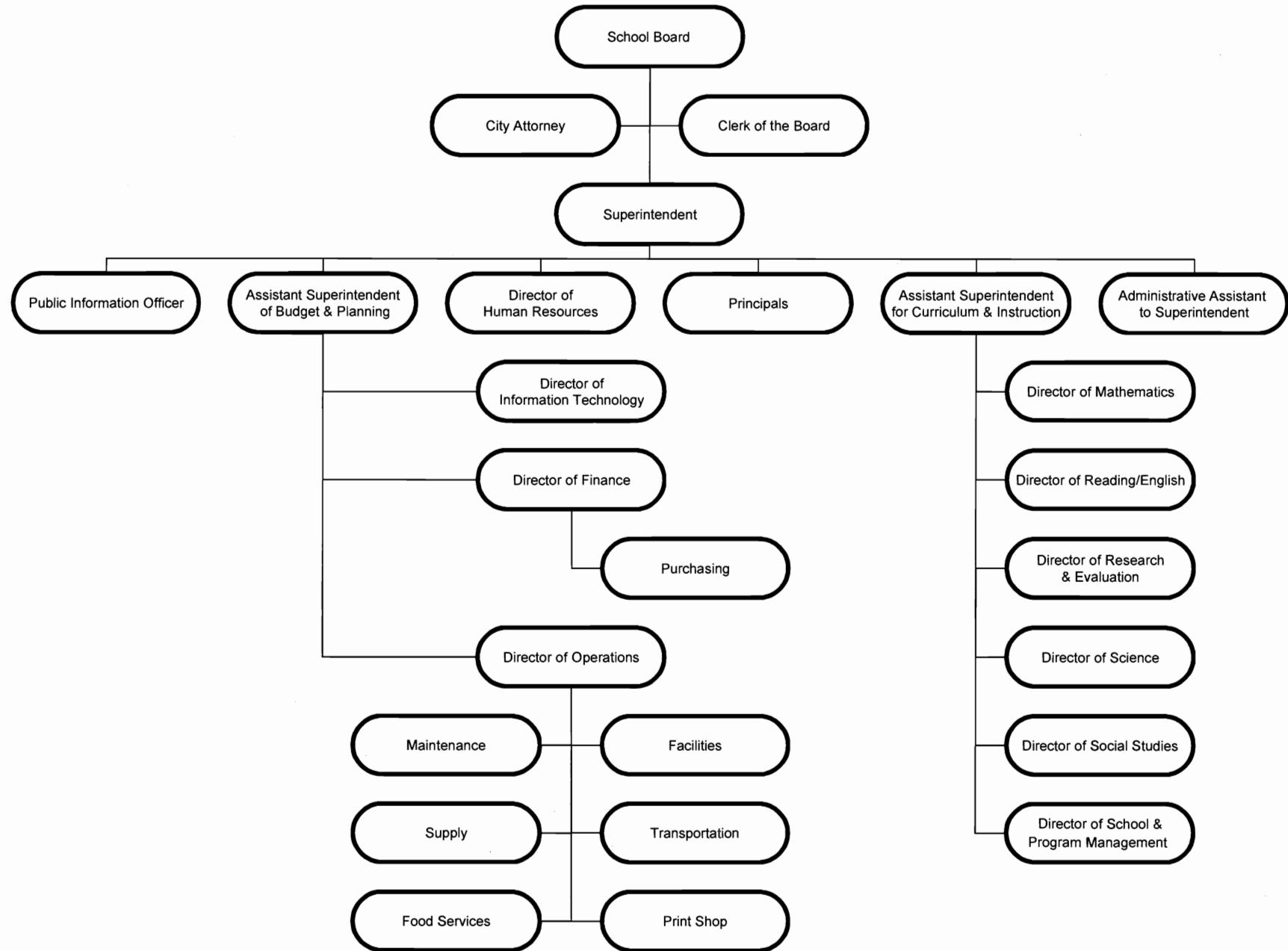
For its Comprehensive Annual Financial Report (CAFR)

For the Fiscal Year Ended June 30, 2006
upon recommendation of the Association's Panel of Review
which has judged that the Report substantially conforms
to principles and standards of ASBO's Certificate of Excellence Program

John A. Mays
Executive Director

[Signature]
President

City of Portsmouth, Virginia School Board
Component Unit of the City of Portsmouth, Virginia
Organizational Chart (June 30, 2007)



!X:

FINANCIAL SECTION



Independent Auditors' Report

Members of the School Board
City of Portsmouth, Virginia

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Portsmouth, Virginia School Board (School Board), a component unit of the City of Portsmouth, Virginia, as of and for the year ended June 30, 2007 which collectively comprise the School Board's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the School Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Portsmouth, Virginia School Board as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2007, on our consideration of the City of Portsmouth, Virginia School Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 3 through 11, the budgetary comparison schedules of the general fund and major annually budgeted special revenue funds, and the other required supplementary information on pages 35 through 39 listed in the table of contents are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Portsmouth, Virginia School Board's basic financial statements. The introductory section, other supplementary information and the statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Cherry, Bekant & Holland, A. Z. P.

Virginia Beach, Virginia
November 27, 2007

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

This section of the City of Portsmouth, Virginia School Board's (the School Board) annual financial report presents our discussion and analysis of the School Board's financial performance during the fiscal year ended June 30, 2007. Please read it in conjunction with the financial statements, which follow this section.

Financial Highlights for Fiscal Year 2007

The School Board's financial status, as reflected in total net assets, increased 25% to \$58.7 million. Of that \$4.4 million of the net assets are restricted to ongoing capital projects that consist primarily of various school renovation projects, and \$347 thousand is restricted for federal and state projects – primarily categorical grants.

On the statement of net assets – governmental activities, total liabilities at June 30, 2007 totaled \$28.6 million. The bulk of the current liabilities of \$17.1 million are related to accrued payroll and Accounts Payable, while the majority of the non-current liabilities relate to compensated absences and capital leases.

On the statement of revenues, expenditures, and changes in fund balances – governmental funds, the general fund, the food services fund, and the grants fund experienced a decline in fund balance. The decline in the general fund and the food services fund was relatively small. The food services balance decline was due to increasing costs for materials and supplies. The general fund had \$138.7 million in revenues and \$132.9 million in expenditures. The general fund's fund balance decreased from \$4.7 million to \$4.5 million.

Total intergovernmental revenue was \$162.8 million. Of that, \$42.9 was from the City of Portsmouth (the City), \$101.9 million was state aid from the Commonwealth of Virginia, and \$18 million was from the federal government.

Operational Highlights for Fiscal Year 2007

Teachers and other personnel paid on the teacher salary schedule received an average 8% increase in pay. All other personnel received 5% increase, effective July 1, 2006.

Capital improvements completed during the year were – renovations and upgrades to the HVAC systems at the Instructional Resource Center (IRC).

New school construction - Park View Elementary continued during the year. This project is to demolish existing building and mobiles and build new 80,000 square feet school. Renovations to Victory Elementary also started during the year.

The new MUNIS Financial system was implemented on July 9, 2007. The modules scheduled to go live are Purchasing, Accounts Payable, Grants, General Ledger, and Budget.

The school district aggressively seeks competitive grant funds to further its mission. During fiscal year 2006-07, USDOE awarded the Character Ed Grant as part of Youth Risk activities and also received a significant increase in funding for the Bright Start grant due to Governor initiatives.

Overview of the Financial Statements

This Comprehensive Annual Financial Report has six component sections: management's discussion and analysis (this section), the basic financial statements, other supplementary information, an optional section that presents combining statements for internal service funds, a statistical section, and a compliance section.

There are two types of financial statement presentations, one for the School Board as a whole (government-wide) and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the School Board's overall financial status on an economic resource focus. The remaining statements are fund financial statements that focus on a current financial resource basis and individual parts of the School Board's operations in more detail than the government-wide financial statements.

Also included in the financial statements are notes that explain some of the information in the financial statements and provide more detailed data. Following statements is a section of required supplementary information that further explains and supports the information in the financial statements.

The following chart summarizes the major features of the School Board's financial statements and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of the School Board's Government-Wide and Fund Financial Statements:

		Fund Statements		
Government-Wide Statements		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire school system	The activities of the school system that are not proprietary or fiduciary, such as General, Text Books, Grants, Food Services, and Capital Projects Funds	Activities the school system operates similar to private businesses, such as the Print Shop Fund	Instances in which the school system is the trustee or agent for someone else's resources, such as the Student Activities Fund
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and change in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses, and change in net assets • Statement of cash flows 	Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Modified accrual basis of accounting
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	The school system's fund does not currently contain capital assets nor liabilities
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All receipts and disbursements during year, when cash is received or paid, rather than when an obligation is incurred

Government-Wide Statements

The government-wide statements report information about the School Board as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the School Board's assets and liabilities, while the statement of activities reports the School Board's revenues and expenses, regardless of when cash is received or paid. Both of the statements are prepared using the full accrual basis of accounting, which is similar to private-sector accounting.

The two government-wide statements report the School Board's net assets and how they have changed. Net assets, the difference between the School Board's assets and liabilities, is one way to measure the School Board's financial health or position.

- Over time, increases or decreases in the School Board's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the School Board you need to consider additional non-financial factors such as changes in the student population and the condition of school properties.

The government-wide financial statements of the School Board include only governmental activities, as the School Board does not have business-type activities. Most of the School Board's basic services are included here, such as administration, instruction, attendance and health, pupil transportation, information technology, and operations and maintenance. State aid, Federal aid, and State and Federal grants finance most of these activities.

Fund Financial Statements

The fund statements focus on the major funds of the School Board, rather than the entity as a whole. These financial statements are presented on a modified accrual basis and are accounting devices that the School Board uses to keep track of specific sources of funding and spending for particular purposes.

The School Board has three types of funds:

- Governmental funds – Most of the School Board's basic activities are included in governmental funds, which focus on: (1) how cash and other financial assets that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps a reader determine whether there are more or fewer financial resources that can be spent in the near-term future to finance the School Board's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, this additional information is provided in reconciliations after the governmental funds statements to explain the relationship (or differences) between them.
- Proprietary funds – Services for which the School Board charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information. The School Board uses two internal service funds. Internal service funds are used for goods or services provided by a central service department or agency to other departments, agencies or to other unrelated governmental units, usually on a cost reimbursement basis. The Print Shop Fund supplies printing and graphics services to the City of Portsmouth, outside entities and functional units in the School Board on a cost reimbursement basis. The Risk Management and Insurance Fund accounts for the payment of claims and legal fees, if necessary, on public liability claims arising from the operations of the School Board.

- Fiduciary funds – The School Board maintains an agency fund which is custodial in nature (assets equal liabilities) and does not involve measurements of the results of operations. The School Board's agency fund is the Student Activities Fund, which accounts for the student activity monies maintained on behalf of the students by the school principals at each school.

Financial Analysis of the School Board as a Whole

Following is a discussion of the major financial highlights of the School Board financial statements:

Net Assets

The School Board's net assets at the end of fiscal year 2007 were \$58.7 million, which were composed of \$9.0 million in unrestricted net assets, \$4.7 million in restricted for other purposes, and \$44.9 million invested in capital assets, net of related debt. Capital assets of the School Board which are secured by debt are reflected in the City of Portsmouth's financial statements. All capital assets that are School Board assets which are not secured by debt are reported in the School Board's financial statements. Please refer to the Financial Highlights for Fiscal Year 2007 section for the related construction projects.

	Net Assets	
	(In thousands of dollars)	
	June 30, 2007	June 30, 2006
Current and other assets	\$ 34,255	\$ 29,415
Capital assets	53,015	45,009
Total assets	87,270	74,424
Long-term debt outstanding	14,771	15,530
Other liabilities	13,800	12,044
Total liabilities	28,571	27,574
Net assets		
Invested in capital assets, net of related debt	44,932	36,505
Restricted, grant compliance	4,732	4,355
Unrestricted	9,035	5,990
Total net assets	\$ 58,699	\$ 46,850

Changes in Net Assets

The breakdown of program revenue is as follows: 92% comes from operating contributions, while 3% comes from capital grants and contributions; and the remaining program revenue is from charges for services. Total general revenues for fiscal year 2007 were \$111.8 million, consisting primarily of grants and contributions not restricted to specific programs. City appropriations make up approximately 26% of these revenues. The majority of the rest of the grants and contributions not restricted to specific programs are derived from State and Federal funds.

Changes in Net Assets

Years Ended June 30,
(In thousands of dollars)

	2007	2006
Revenues:		
Program revenues:		
Charges for services	\$ 2,778	\$ 2,777
Operating grants and contributions	51,352	45,768
Capital grants and contributions	1,688	1,912
General revenues:		
Interest and investment earnings	794	631
Grants and contributions not restricted	110,787	96,769
Miscellaneous	209	28
Total revenues	167,608	147,885
 Program expenses:		
Instruction	115,459	103,746
Administration	3,808	3,387
Attendance and health services	3,214	3,278
Pupil transportation	6,605	6,333
Operations and maintenance	14,915	16,498
Information technology	4,756	4,949
Food services	6,705	6,658
Interest on long-term debt	297	372
Total program expenses	155,759	145,221
 Excess of revenues over expenditures before special item	11,849	2,664
 Special item	-	(784)
 Change in net assets	11,849	1,880
 Beginning net assets	46,850	44,970
 Ending net assets	\$ 58,699	\$ 46,850

Operating grants and contributions in the program revenues section, increased by \$5.6 million over the previous fiscal year. Most of this was related to increases of \$4.0 million in State revenue and \$1.6 million in grants revenue.

Grants and contributions not restricted, in the general revenues section, increased by \$14 million over the previous fiscal year. The City Council increased its appropriation by \$5.9 million as a part of its support of Portsmouth Public Schools and to bring teacher salaries in parity with the region.

Instruction program expenses increased by \$11.7 million over the previous fiscal year. Almost all of this increase was a result of a salary increase in teacher salaries and related benefits.

Financial Analysis of the School Board's Funds

The School Board's combined fund balance for the governmental funds was \$15.4 million for fiscal year ended June 30, 2007. The net change is comparative to last years combined fund balance.

General Fund Budgetary Highlights

Throughout fiscal year 2007, the School Board amended its total budget; however, the School Board delegates authority to the superintendent to move budget amounts between line items and organizational units to meet the changing needs of the School Board. The School Board's administration manages actual spending to the revenue received.

General Fund
Fiscal Year 2007
(In thousands of dollars)

	Original Budget	Amended Budget	Actual (Budgetary Basis)
Revenues:			
Intergovernmental	\$ 138,714	\$ 138,739	\$ 137,058
Other	675	687	1,654
Total	<hr/> 139,389	<hr/> 139,426	<hr/> 138,712
Expenditures and transfers:			
Expenditures	134,396	131,010	125,725
Transfers	4,993	8,416	12,987
Total	<hr/> 139,389	<hr/> 139,426	<hr/> 138,712
Change in fund balance	<hr/> \$ -	<hr/> \$ -	<hr/> \$ -

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2007, the School Board had \$53 million in capital assets, net of depreciation. Most of the assets are in school buildings and land. Of the equipment, most of the capital assets are the school bus fleet and the maintenance vehicles.

Capital Assets

(Net of depreciation, in thousands of dollars)

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Land	\$ 6,337	\$ 6,337
Buildings and improvements	27,960	23,834
Equipment	6,506	7,021
Construction in progress	<u>12,212</u>	<u>7,817</u>
Total	<u><u>\$ 53,015</u></u>	<u><u>\$ 45,009</u></u>

During fiscal year 2007, the School Board placed in service \$8 million in capital assets. New equipment placed in service comprised that portion of the increase in capital assets.

Readers desiring more information on capital assets are referred to Note 3 in the basic financial statements.

Long-Term Debt

Long-term debt as of fiscal year-end was \$14.8 million, with \$11.5 million due in greater than one year and \$3.3 million due within one year.

The significant portions of long-term debt were \$2.78 million in vacation and sick leave liability, \$8.1 million in energy lease obligations, and \$1 million in claims payable related to potential workman's compensation claims.

Readers desiring more information on long-term debt are referred to Note 4 in the basic financial statements.

Economic Factors and Next Year's Budget

Subsequent to the adoption of the budget for fiscal year 2007, some issues have become relevant to the budgeted revenues. They are as follows:

In its fiscal year 2007 budget, which was effective July 1, 2007, the School Board planned a raise of 4.8% for teacher salaries and a raise of 4.8% for administrators and staff.

The School Board has experienced a decreasing average daily membership (ADM-student population). State revenues are based on ADM. The new New Port Housing Development replacing the old Fairwood Homes section should bring additional students to the school system. Construction of new homes is planned for the fall of 2007.

Implementation of a Munis system - Human Resources and Payroll module will begin in fiscal year 2008. The scheduled Go-Live date is July 1, 2008.

Continued construction of the new Park View Elementary School and renovations and additions to Victory Elementary School.

Construction for new Simondale/Olive Branch School will begin in the third quarter.

During the course of the ensuing year, School Board administration will monitor and manage spending in fiscal year 2007 in light of the aforementioned.

Contacting the School Board's Financial Management

This financial report is designed to provide citizens, taxpayers, parents, guardians, and creditors with a general overview of the School Board's finances and to demonstrate the School Board's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Portsmouth, Virginia, School Board, Superintendent's Office, 801 Crawford Street, Portsmouth, Virginia 23704.

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit I

STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES

June 30, 2007

ASSETS

Cash and cash equivalents	\$ 22,226,766
Cash with fiscal agent	4,444,427
Due from federal government	4,797,991
Due from Commonwealth of Virginia	1,424,718
Receivables, net	171,798
Inventory	1,085,109
Due from primary government	104,075
Capital assets not depreciated	18,549,386
Other capital assets- net	<u>34,465,783</u>
Total assets	\$ 87,270,053

LIABILITIES

Accounts payable	\$ 5,084,627
Accrued payroll	6,537,174
Accrued payroll taxes	1,781,782
Accrued interest	296,789
Accrued indirect costs	27,945
Due to primary government	71,361
Long-term liabilities:	
Due within one year	3,304,424
Due in more than one year	<u>11,467,383</u>
Total liabilities	<u>28,571,485</u>

NET ASSETS

Invested in capital assets- net of related debt	44,931,980
Restricted:	
Grant compliance	347,430
Capital projects	4,384,612
Unrestricted	<u>9,034,546</u>
Total net assets	<u>58,698,568</u>
Total liabilities and net assets	\$ 87,270,053

The accompanying notes are an integral part of the basic financial statements.

STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES

Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expenses)	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Assets	
Governmental activities:						
Administration	\$ 3,808,174	\$ -	\$ -	\$ -	\$ (3,808,174)	
Instruction	115,458,976	57,593	46,477,689	-	(68,923,694)	
Attendance and health services	3,213,924	254,759	-	-	(2,959,165)	
Pupil transportation	6,605,055	491,238	-	-	(6,113,817)	
Operations and maintenance	14,914,931	96,522	-	1,688,185	(13,130,224)	
Information technology	4,756,484	-	-	-	(4,756,484)	
Food service	6,704,880	1,878,133	4,874,151	-	47,404	
Interest on long-term debt	297,069	-	-	-	(297,069)	
Total Primary Government	\$ 155,759,493	\$ 2,778,245	\$ 51,351,840	\$ 1,688,185	(99,941,223)	
General Revenues						
Unrestricted grants and contributions					110,786,754	
Investment earnings					793,957	
Miscellaneous					209,103	
Total general revenues and special item					111,789,814	
Change in net assets					11,848,591	
Net assets - beginning of year					46,849,977	
Net assets - end of year					\$ 58,698,568	

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit III
 Page 1 of 2

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2007

	General	School Grants	School Food Services	School Textbook	School Construction	Total Governmental Funds	
						Funds	
ASSETS							
Cash and temporary investments	\$ 7,359,262	\$ 2,372,075	\$ 2,553,411	\$ 109,262	\$ 5,640,638	\$ 18,034,648	
Cash with fiscal agent	-	-	-	-	4,444,427	4,444,427	
Receivables	45,000	101,840	-	-	-	146,840	
Due from City of Portsmouth	-	104,075	-	-	-	104,075	
Due from federal government, net of allowance of \$200,000	-	4,081,615	716,377	-	-	4,797,992	
Due from Commonwealth of Virginia	970,925	453,793	-	-	-	1,424,718	
Due from other funds	6,914,989	-	-	-	1,138,142	8,053,131	
Inventory	669,053	-	36,728	304,424	-	1,010,205	
Total assets	\$ 15,959,229	\$ 7,113,398	\$ 3,306,516	\$ 413,686	\$ 11,223,207	\$ 38,016,036	
LIABILITIES							
Accounts payable	\$ 1,887,245	\$ 759,667	\$ 5,704	\$ -	\$ 2,423,587	\$ 5,076,203	
Accrued indirect costs	-	-	27,945	-	-	27,945	
Accrued payroll	6,537,174	-	-	-	-	6,537,174	
Accrued payroll taxes	1,781,782	-	-	-	-	1,781,782	
Due to City of Portsmouth	71,361	-	-	-	-	71,361	
Deferred revenue	-	1,004,253	-	-	-	1,004,253	
Due to other funds	1,180,836	5,995,993	918,996	-	-	8,095,825	
Total liabilities	11,458,398	7,759,913	952,645	-	2,423,587	22,594,543	
FUND BALANCES							
Reserved:							
Encumbrances	3,831,778	-	-	4,457	1,472,554	5,308,789	
Inventories	669,053	-	36,728	304,424	-	1,010,205	
Grant compliance	-	347,430	-	-	-	347,430	
Capital projects	-	-	-	-	4,444,427	4,444,427	
Unreserved:							
Designated for capital projects	-	-	-	-	2,882,639	2,882,639	
Undesignated	-	(993,945)	2,317,143	104,805	-	1,428,003	
Total fund balances (deficit)	4,500,831	(646,515)	2,353,871	413,686	8,799,620	15,421,493	
Total liabilities and fund balances	\$ 15,959,229	\$ 7,113,398	\$ 3,306,516	\$ 413,686	\$ 11,223,207	\$ 38,016,036	

The accompanying notes are an integral part of the basic financial statements.

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2007

**Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Assets**

Total fund balances - governmental funds	\$ 15,421,493
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	53,010,815
Other long-term assets are not available to pay for current period expenditures and therefore are offset by deferred revenue in the governmental funds.	1,004,253
Internal service funds are used by management to charge the costs of certain activities, such as printing and insurance to individual funds. The assets and liabilities of the internal internal service funds are included in governmental activities in the statement of net assets.	2,033,556
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Long-term liabilities	\$ (12,474,760)
Accrued interest payable	<u>(296,789)</u>
	<u>(12,771,549)</u>
Total net assets - governmental activities	\$ 58,698,568

The accompanying notes are an integral part of the basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit IV
 Page 1 of 2

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUNDS**

Year Ended June 30, 2007

	General	School Grants	School Food Services	School Textbook	School Construction	Total Governmental Funds
Revenues						
Intergovernmental						
From City of Portsmouth	\$ 42,683,991	\$ 252,442	\$ -	\$ -	\$ -	\$ 42,936,433
From Commonwealth of Virginia	93,991,127	3,489,460	120,356	1,658,152	2,613,874	101,872,969
From federal government	326,137	12,933,192	4,753,795	-	-	18,013,124
Total intergovernmental	137,001,255	16,675,094	4,874,151	1,658,152	2,613,874	162,822,526
Charges for services	-	-	1,408,694	-	-	1,408,694
Interest	263,821	-	150,485	213	345,299	759,818
Miscellaneous	1,389,521	125,224	469,440	-	-	1,984,185
Total revenues	138,654,597	16,800,318	6,902,770	1,658,365	2,959,173	166,975,223
Expenditures						
Current:						
Education:						
Administration	3,474,806	376,888	-	-	-	3,851,694
Instruction	98,783,841	16,158,338	-	1,244,679	-	116,186,858
Attendance and health services	2,436,703	823,858	-	-	-	3,260,561
Pupil transportation	5,264,503	609,345	-	-	-	5,873,848
Information technology	4,741,880	-	-	-	-	4,741,880
Operation and maintenance	14,518,216	331,678	-	-	-	14,849,894
Food services	-	-	6,752,318	-	-	6,752,318
Capital outlay	2,966,527	1,047,751	120,496	-	6,554,063	10,688,837
Debt service:						
Principal	370,939	-	17,530	-	-	388,469
Interest	350,846	-	15,923	-	-	366,769
Total expenditures	132,908,261	19,347,858	6,906,267	1,244,679	6,554,063	166,961,128
Excess (deficiency) of revenues over (under) expenditures	5,746,336	(2,547,540)	(3,497)	413,686	(3,594,890)	14,095
Other financing sources (uses)						
Transfers in	-	716,729	-	-	5,254,510	5,971,239
Transfers out	(5,971,239)	-	-	-	-	(5,971,239)
Total other financing sources (uses)	(5,971,239)	716,729	-	-	5,254,510	-
Excess (deficiency) of revenues over (under) expenditures	(224,903)	(1,830,811)	(3,497)	413,686	1,659,620	14,095
Fund balance at beginning of year	4,725,734	1,184,296	2,357,368	-	7,140,000	15,407,398
Fund balances (deficit) - end of year	\$ 4,500,831	\$ (646,515)	\$ 2,353,871	\$ 413,686	\$ 8,799,620	\$ 15,421,493

The accompanying notes are an integral part of the basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit IV, continued
Page 2 of 2

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS**

Year Ended June 30, 2007

**Reconciliation of the Revenues, Expenditures, and Changes in
Fund Balances - Governmental Funds to the Statement of Activities**

Net change in fund balances - total governmental funds \$ 14,095

Amounts reported for governmental activities in the statement of net assets
are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities the cost of these
assets is allocated over their estimated useful lives and
reported as depreciation expense. This is the amount by
which capital outlay exceeded depreciation.

General government capital outlay expenditures	\$ 11,129,492	
Depreciation of general government assets	<u>(3,080,862)</u>	8,048,630

Revenues in the statement of activities that do not provide current
financial resources are not reported as revenues in the funds. 1,004,253

Debt proceeds provide current financial resources to governmental funds, but
issuing debt increases long-term liabilities in the Statement of Net Assets.
Repayment of bond principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the Statement of Net Assets.

Add debt repayment	388,469
--------------------	---------

Some expenses, such as compensated absences and net
pension obligation, reported in the Statement of Activities do
not require the use of current financial resources and, therefore,
are not reported as expenditures in governmental funds.

Change in compensated absences and net pension obligation	(170,098)	
Change in accrued interest payable	<u>69,980</u>	(100,118)

Internal service funds are used by management to charge the cost
of certain activities, such as printing and insurance to individual funds.
The net revenue of certain internal service funds is reported with
governmental activities. 2,493,262

Change in net assets of governmental activities	\$ <u>11,848,591</u>
--	----------------------

The accompanying notes are an integral part of the basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit V

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2007

ASSETS	Governmental Activities- Internal Service Funds
Current assets	
Cash and temporary investments	\$ 4,192,119
Due from other funds	42,694
Due from other agencies	24,957
Inventories	74,904
Total current assets	4,334,674
Noncurrent assets	
Machinery and equipment	871,266
Less - accumulated depreciation	(866,911)
Total noncurrent assets	4,355
Total assets	\$ 4,339,029
LIABILITIES AND NET ASSETS	
Current liabilities	
Claims payable - current portion	\$ 1,281,648
Accounts payable	8,424
Total current liabilities	1,290,072
Noncurrent liabilities	
Claims payable - net of current portion	964,829
Compensated absences	50,572
Total noncurrent liabilities	1,015,401
Total liabilities	2,305,473
Net assets	
Invested in capital assets - net of related debt	4,355
Unrestricted	2,029,201
Total net assets	2,033,556
Total liabilities and net assets	\$ 4,339,029

The accompanying notes are an integral part of the basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit VI

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
 NET ASSETS (DEFICITS) - PROPRIETARY FUNDS**

Year Ended June 30, 2007

	Governmental Activities- Internal Service Funds
Operating revenues	
Charges for services	\$ 3,422,531
Total operating revenues	<u>3,422,531</u>
Operating expenses	
Personnel services	345,850
Insurance claims and expenses	306,049
Contractual services	121,022
Repairs and maintenance	33,059
Other supplies and expenses	181,827
Depreciation and amortization	40,230
Total operating expenses	<u>1,028,037</u>
Operating income	<u>2,394,494</u>
Nonoperating revenues (expenses)	
Interest income	99,044
Insurance recovery	2,656
Interest expense	(276)
Total nonoperating revenues (expenses)	<u>101,424</u>
Change in net assets	2,495,918
Total net assets (deficits) - beginning of year	<u>(462,362)</u>
Total net assets - end of year	<u>\$ 2,033,556</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit VII

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended June 30, 2007

	Governmental Activities- Internal Service Funds
Cash flows from operating activities	
Received from customers and users	\$ 3,434,800
Payments to suppliers for goods and services	(904,360)
Payments to employees	(604,154)
Net cash provided by operating activities	1,926,286
Cash flows from capital and related financing activities	
Principal paid on capital debt	(33,037)
Interest paid on capital debt	(276)
Net cash used in capital and related financing activities	(33,313)
Cash flows from investing activities	
Interest received	99,044
Net cash provided by investing activities	101,700
Net change in cash and temporary investments	1,994,673
Cash and temporary investments - beginning of year	2,197,446
Cash and temporary investments - end of year	\$ 4,192,119
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 2,394,494
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	40,230
Change in compensated absences	5,697
Change in assets and liabilities:	
Due from other governments	(11,621)
Due from other funds	(14,373)
Inventories	27,239
Vouchers and accounts payable	(2,535)
Claims payable	(512,845)
Total adjustments	(468,208)
Net cash provided by operating activities	\$ 1,926,286

Supplemental information on significant non-cash transactions:

There were no significant non-cash transactions.

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit VIII

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES - AGENCY FUND

June 30, 2007

ASSETS	Agency Fund
Cash and temporary investments	<u>\$ 743,103</u>
LIABILITIES	
Due to students	<u>\$ 743,103</u>

The accompanying notes are an integral part of the basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements presented for the City of Portsmouth, Virginia School Board (School Board) are prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (GASB). The School Board's significant accounting and reporting policies are described below.

The Financial Reporting Entity

The School Board is considered a component unit of the City of Portsmouth (City). The School Board has no component units. Component units are legally separate entities for which a primary government is financially accountable. Financial accountability ordinarily involves meeting both of the following criteria: (a) the primary government is accountable for the component unit, and (b) the primary government is able to impose its will upon the component unit (or there is a possibility that the component unit may provide specific financial benefits or impose specific financial burdens on the primary government). The information included in these basic financial statements will also be included in the City of Portsmouth's basic financial statements because of the significance of the School Board's financial relationship with the City.

The School Board determines educational policy and employs a Superintendent of Schools to administer the School Board's policies. The members of the School Board are elected by the citizens of the City of Portsmouth.

The School Board is responsible for elementary and secondary education for the City of Portsmouth.

Basis of Presentation

The School Board's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements: The statement of net assets and the statement of activities display information about the School Board as a whole, except for fiduciary funds. These statements are reflected on a full accrual basis of accounting and economic resources measurement focus, which incorporates long-term assets as well as long-term liabilities.

The statement of net assets presents the financial condition of the governmental type activities of the School Board at year-end. The School Board does not have any business-type activities. The government-wide statement of activities reflects both the gross and net cost per functional category that is otherwise being supported by general government revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues (charges for services, operating and capital grants, and contributions). The program revenues must be directly associated with the function or a business-type activity. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items such as grants not specific to a program, not properly included among program revenues, are reported as general revenues. The School Board does not allocate indirect expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Fund Financial Statements: The accounts of the School Board are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The fund statements are presented on a current financial resources measurement focus and the modified accrual basis of accounting. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile the fund financial statements to the government-wide financial statements.

Governmental Funds

Governmental Funds are those through which most governmental functions of the School Board are financed. The acquisition, use and balances of the School Board's expendable financial resources and the related liabilities are accounted for through governmental funds. Governmental fund types use the "flow of current financial resources" measurement focus. This means that generally only current assets and current liabilities are reflected on their balance sheets. Their operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. The measurement focus is based upon the determination of changes in financial position, rather than upon net income determination. The School Board reports the following major governmental funds:

General Fund - The General Fund (School Operating Fund) is the general operating fund of the School Board. It is used to account for all financial resources except those required to be accounted for in another fund. Revenues are primarily from other governments (intergovernmental revenues).

School Grants Fund - The School Grants Fund is a special revenue fund which accounts for federal, state and other grants associated with school programs.

School Food Services Fund - The School Food Services Fund is a special revenue fund which accounts for the operations of the cafeterias operating in each school.

School Textbook Fund – The School Textbook Fund is a special revenue fund which accounts for state funding for the acquisition of textbooks.

School Construction Fund - The School Construction Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Additionally, the School Board reports the following fund types:

Internal Service Funds - The Internal Service Funds account for the financing of services provided by one fund to other funds of the School Board. The Risk Management and Insurance Fund accounts for the payment of claims and legal fees, if necessary, on public liability claims arising from the operations of the School Board. The Print Shop Fund accounts for print shop services provided to other departments of the School Board or other governments on a cost reimbursement basis. Operating revenues include charges for services. Operating expenses include cost of services. The internal service funds are included in governmental activities for government-wide reporting purposes. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The excess revenue or expenses for the funds are allocated to the appropriate functional activity. In accordance with GASB Statement No. 20, the School Board has elected to follow GASB statements issued after November 30, 1989, rather than the Financial Accounting Standards Board, in accounting for proprietary funds.

Fiduciary Funds - Fiduciary funds are used to account for assets held by the School Board in trustee capacity or as an agent for individuals, private organizations, and other governments. The fiduciary fund of the School Board is the Student Activities Fund. This agency fund accounts for the student activity monies maintained on behalf of the students by the school principals at each school. Fiduciary funds are not included in the government-wide financial statements.

Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the fund statements. Long-term assets and long-term liabilities are included in the government-wide statements. Operating statements of the governmental funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. The School Board generally first uses restricted assets for expenses incurred for which both restricted and unrestricted assets are available.

The government-wide statement of net assets and statement of activities and all proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operation of these activities are included on the statement of net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The statement of net assets, statement of activities and financial statements of the proprietary funds are presented on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Generally revenues collected within 45 days of year-end are recognized. For grants, revenue is recognized when all eligibility requirements have been met. Expenditures, other than interest and principal on long-term debt which is recorded when due, are recorded when the fund liability is incurred, if measurable.

Receivables

Receivables are presented net of an allowance for doubtful accounts of \$200,000 in the School Grants Fund.

Inventory

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory consists of consumable materials and supplies held for future consumption. Under the purchase method of accounting, the cost is recorded as an expenditure in the governmental funds at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reservation which indicates the inventories do not constitute "available spendable resources."

Capital Assets

Capital outlays are recorded as expenditures in the governmental funds and as assets in the government-wide financial statements to the extent the School Board's capitalization threshold of \$5,000 is met.

Depreciation is recorded on general capital assets on a government-wide basis using the straight-line method over the following estimated useful lives:

Buildings and Improvements	20-50 years
Equipment	5-30 years

To the extent the School Board's capitalization threshold of \$5,000 is met, capital outlays of the Proprietary Funds are recorded as capital assets and depreciated over their estimated useful lives on a straight-line basis on both the funds basis and the government-wide basis using the straight-line method and the following estimated useful life:

Equipment	5-8 years
-----------	-----------

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated assets are recorded at estimated fair market value on the date received. The School Board has no infrastructure assets.

Under Virginia law, certain property maintained by the School Board is subject to tenancy in common with the City, if the City has incurred a financial obligation for the property, which is payable over more than one fiscal year. The School Board and the City have agreed that such property, having a net book value of \$61,711,548, will be carried on the City's financial statements until the outstanding debt is repaid.

Maintenance, repairs and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

Compensated Absences

School Board employees are granted vacation and sick pay in varying amounts as services are provided. They may accumulate, subject to certain limitations, unused vacation pay earned and, upon retirement, termination or death, may be compensated as salary related payments for certain amounts at their then current rates of pay. After five consecutive years of service, employees, upon retirement, termination or death may be compensated at a daily rate of \$20 for each unused sick leave day earned.

Fund Balances/Net Assets

Fund balances have been classified to reflect the limitations and restrictions placed on the respective funds as follows:

Fund Balances - Reserved - indicates that a portion of fund equity which has been legally segregated for specific purposes or does not represent available expendable resources.

Fund Balances - Unreserved, Undesignated - represents the remainder of the School Board's equity in governmental fund-type balances.

Net Assets in government-wide financial statements are classified as invested in capital assets, net of related debt, restricted and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through state statute.

Statement of Cash Flows

For purposes of the statement of cash flows, investments with original maturities of three months or less from the date of purchase are grouped into cash and temporary investments.

Use of Estimates

Management of the School Board has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Management believes any differences between these estimates and actual results should not materially affect the School Board's reporting of its financial position.

2. DEPOSITS AND INVESTMENTS

The School Board maintains individual segregated bank accounts for the School Grants, School Food Services and Print Shop funds. The General, Textbook, School Construction and Risk Management funds share a pooled cash account.

Deposits

At year end, the carrying value of the School Board's deposits with banks and savings institutions was \$2,856,766 and the bank balance was \$6,194,391. The bank balances of the School Board's deposits were covered by Federal Depository Insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the Act). Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. The State Treasury is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks. If any member financial institution fails, the entire collateral becomes available to satisfy claims of the School Board. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members (banks) of the pool. Therefore, these deposits are considered collateralized and as a result are considered insured.

Investments

State statutes authorize the School Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime" quality commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

The City Treasurer's investment policies apply to the School Board's deposits and investments. The Treasurer's investment policy addresses custodial credit risk, interest rate risk, concentration of risk, and credit risk, in which instruments are to be diversified and maturities timed according to anticipated needs in order to minimize any exposure.

The School Board has \$19,370,000 invested in the Evergreen Money Market fund, \$379,662 invested in Fidelity Treasury Fund and \$4,064,765 invested in the American Government Obligation Fund as of June 30, 2007. These funds had a credit rating of AAAm by Standard & Poor's.

The School Board has \$4,444,427 in the School Construction Fund that is held with a fiscal agent. Of this, the amount restricted for capital projects is \$4,384,612.

3. CAPITAL ASSETS – NET

A summary of changes in capital assets for the year ended June 30, 2007, follows:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,337,645	\$ -	\$ -	\$ 6,337,645
Construction in progress	<u>7,817,162</u>	<u>7,005,209</u>	<u>2,610,630</u>	<u>12,211,741</u>
Total capital assets - not being depreciated	<u>14,154,807</u>	<u>7,005,209</u>	<u>2,610,630</u>	<u>18,549,386</u>
Capital assets being depreciated:				
Buildings and improvements	50,444,635	5,235,555	-	55,680,190
Equipment	<u>16,344,413</u>	<u>1,496,701</u>	<u>667,903</u>	<u>17,173,211</u>
Total capital assets being depreciated	<u>66,789,048</u>	<u>6,732,256</u>	<u>667,903</u>	<u>72,853,401</u>
Less accumulated depreciation for:				
Buildings and improvements	26,610,893	1,109,460	-	27,720,353
Equipment	<u>9,323,536</u>	<u>2,011,632</u>	<u>667,903</u>	<u>10,667,265</u>
Total accumulated depreciation	<u>35,934,429</u>	<u>3,121,092</u>	<u>667,903</u>	<u>38,387,618</u>
Total capital assets being depreciated - net	<u>30,854,619</u>	<u>3,611,164</u>	<u>-</u>	<u>34,465,783</u>
Governmental activities capital assets - net	<u>\$ 45,009,426</u>	<u>\$ 10,616,373</u>	<u>\$ 2,610,630</u>	<u>\$ 53,015,169</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Instruction	\$ 1,875,114
Administration, attendance and health services	13,414
Pupil transportation	816,741
Operations and maintenance	280,593
Information technology	83,655
Food services	<u>51,575</u>
Total governmental activities depreciation expense	<u>\$ 3,121,092</u>

Contracts the School Board is committed to at June 30, 2007 are approximately \$12,211,742.

Included in capital assets is equipment which is leased under capital leases in the amount of \$871,266, net of accumulated amortization of \$863,338. Amortization expense for 2007 of \$40,230 is included in depreciation expense. Included in construction in progress is \$9,381,783 of cost which is also financed by a capital lease.

4. LONG-TERM LIABILITIES

Long-term liabilities are normally paid from the General Fund.

	<u>Net pension obligation</u>	<u>Capital leases</u>	<u>Accrued vacation pay</u>	<u>Accrued sick leave</u>	<u>Claims payable</u>	<u>Total</u>
Amounts payable at beginning of year	\$ 113,112	\$ 8,504,696	\$ 2,040,960	\$ 2,112,276	\$ 2,759,322	\$ 15,530,366
Increase in liabilities	-	-	1,175,437	539,895	306,049	2,021,381
Decrease in liabilities	(82)	(421,507)	(977,022)	(562,435)	(818,894)	(2,779,940)
Amounts payable at end of year	<u>\$ 113,030</u>	<u>\$ 8,083,189</u>	<u>\$ 2,239,375</u>	<u>\$ 2,089,736</u>	<u>\$ 2,246,477</u>	<u>\$ 14,771,807</u>
Amounts due within one year	\$ -	\$ 482,776	\$ 980,000	\$ 560,000	\$ 1,281,648	\$ 3,304,424

Long-term liabilities applicable to the School Board's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the governmental funds. All liabilities, both current and long-term, are reported in the statement of net assets.

The future payments by year of the net pension obligation, accrued vacation pay and sick leave, and claims payable are not determinable.

Leases

A summary of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2007, is as follows:

<u>Fiscal year</u>	
2008	\$ 801,388
2009	825,431
2010	850,193
2011	875,699
2012	901,970
2013-2017	4,932,341
2018	<u>1,040,463</u>
Total minimum payments	10,227,485
Less - amount representing interest	(2,144,296)
Present value of principal	<u>\$ 8,083,189</u>

5. DEFINED BENEFIT PENSION PLANS

Virginia Retirement System (VRS)

Plan Description

The School Board contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of credited service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service and at age 50 with 30 years of service for participating employers, payable monthly for life, in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living adjustments (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the VRS at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

VRS plan members are required, by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution may be assumed by the employer. This 5% member contribution has been assumed by the School Board. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The School Board's contribution rate for non-professional employees for the fiscal years ended 2007, 2006, and 2005, was 14%, 12%, and 11%, respectively, of annual covered payroll.

Additionally, required contributions to the VRS' state-wide teacher pool for the current year and each of the two preceding years were as follows:

Year ended June 30,	Required contribution	Actual contribution	Percentage contributed
2007	\$10,830,686	\$10,830,686	100%
2006	\$ 8,230,067	\$ 8,230,067	100%
2005	\$ 7,308,906	\$ 7,308,906	100%

Annual Pension Cost

The School Board's annual pension cost and net pension obligation to VRS for the current year were as follows:

Annual required contribution	\$ 929,982
Interest on net pension obligation	8,483
Adjustment to annual required contribution	<u>(8,565)</u>
Annual pension cost	929,900
Contributions made	<u>929,982</u>
Increase in net pension obligation	(82)
Net pension obligation beginning of year	<u>113,112</u>
Net pension obligation end of year	<u>\$ 113,030</u>

The required contribution was determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return, (b) projected salary increases of 3.75% to 5.6% per year and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the School Board's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The School Board's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis over a period of nineteen years.

Trend Information for the School Board

Year ended June 30,	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
2007	\$ 929,900	100%	\$ 113,030
2006	\$ 903,037	100%	\$ 113,112
2005	\$ 958,146	100%	\$ 112,951

6. CONTINGENT LIABILITIES

Risk Management

The School Board is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School Board is self-insured for a portion of these risks. The self-insurance coverage for workers' compensation is \$250,000 per occurrence. Commercial insurance is purchased to cover any liability above these self-insured levels for specific losses. General liability is fully insured. This insurance coverage is substantially the same as in prior fiscal years. There were no settlements within the past three years which exceeded coverage.

The Risk Management and Insurance Fund services all claims of risk of loss to which the School Board is exposed, including workers' compensation, automobile and general liability. All funds of the School Board participate in the Risk Management and Insurance Fund.

A loss analysis was conducted by Mercer Oliver Wyman Actuarial Consulting, Inc. on this fund. The total actuarially computed liability as of June 30, 2007, was determined to be \$2,246,477 (undiscounted) and recorded in the fund and the government-wide statements, accordingly. This was in addition to \$34,161 of claims reported but not paid as of June 30, 2007.

Changes in the fund's claim liability amount in fiscal years 2007 and 2006 were:

	2007	2006
Claims payable at beginning of year	\$ 2,759,322	\$ 2,362,185
Claims and changes in estimates	306,049	1,390,549
Claims payments	<u>(818,894)</u>	<u>(993,412)</u>
Claims payable at end of year	<u>\$ 2,246,477</u>	<u>\$ 2,759,322</u>

Litigation

The School Board is involved in lawsuits arising in the ordinary course of operations. It is the opinion of the School Board's management, based on the advice of the School Board's attorney, that any losses incurred as a result of claims existing as of June 30, 2007 will not be material to the financial statements.

Grants

The School Board received grant funds, principally from the State and Federal governments, for instructional and various other programs. Expenditures from these grants are subject to audit by the grantor, and the School Board is contingently liable to refund amounts received in excess of allowable expenditures. Based on prior experience, School Board management believes such refunds, if any, will not be significant.

Health Insurance Benefits for Certain Retired Employees

The School Board approved a Retiree Health Insurance Premium Contribution Plan in June 2001. Effective for persons who retire on or after July 2001, eligible retiring employees will receive \$2,500 annually to offset the cost of health insurance premiums in retirement. A retired employee shall be eligible to participate if the employee has a minimum of 25 years of service, has reached the minimum age of 55 and was considered a regularly scheduled employee. The School Board shall contribute to a retiree's insurance plan for a maximum of 10 years. Benefits will cease when the retiree reaches 65 or otherwise becomes eligible for social security benefits. As of June 30, 2007, 90 employees were eligible for these benefits. The School Board accounts for these benefits as they are incurred. The expenditures for the year ended June 30, 2007, were approximately \$200,000. The School Board is authorized to establish and amend benefit provisions and obligations to contribute.

7. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivable and payable balances at June 30, 2007, which are considered short-term in nature, are as follows:

	Due from other funds	Due to other funds
General Fund	\$ 6,914,989	\$ 1,180,836
School Grants Fund	-	5,995,993
School Food Services Fund	-	918,996
School Construction Fund	1,138,142	-
Internal Service Funds	<u>42,694</u>	<u>-</u>
	<u>\$ 8,095,825</u>	<u>\$ 8,095,825</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the year ended June 30, 2007, consisted of the following:

	Transfers from other funds	Transfers to other funds
General Fund	\$ -	\$ 5,971,239
School Grants Fund	716,729	-
School Construction Fund	<u>5,254,510</u>	<u>-</u>
	<u>\$ 5,971,239</u>	<u>\$ 5,971,239</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

8. ACCUMULATED DEFICIT AND NEGATIVE NET ASSETS

At June 30, 2007, an accumulated deficit or negative net assets position existed in the following fund:

School Grants Fund	\$646,515
--------------------	-----------

The deficit is expected to be eliminated by revenues in subsequent fiscal years.

* * * * *

***REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MANAGEMENT'S DISCUSSION AND
ANALYSIS
(UNAUDITED)***

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit X

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Original Budget	Budget as Amended	Actual (Budgetary Basis)	Variance with Amended Budget
				Positive (Negative)
Revenues				
Intergovernmental:				
From City of Portsmouth	\$42,683,991	\$42,683,991	\$42,683,991	\$ -
From Commonwealth of Virginia	95,369,587	95,394,743	94,048,163	(1,346,580)
From federal government	660,000	660,000	326,137	(333,863)
Interest	-	55,000	263,821	208,821
Miscellaneous	675,000	632,110	1,389,521	757,411
Total revenues	139,388,578	139,425,844	138,711,633	(714,211)
Expenditures				
Education:				
Administration	3,882,484	3,850,021	3,533,084	316,937
Instruction	97,251,452	97,253,588	93,655,515	3,598,073
Attendance and health services	2,272,367	2,378,844	2,420,364	(41,520)
Pupil transportation	4,892,842	5,532,634	5,295,416	237,218
Operations and maintenance	17,689,550	13,683,330	13,903,558	(220,228)
Information technology	5,552,518	5,508,264	4,706,807	801,457
Total education	131,541,213	128,206,681	123,514,744	4,691,937
Capital outlay	2,854,339	2,803,190	2,209,819	593,371
Total expenditures	134,395,552	131,009,871	125,724,563	5,285,308
Excess of revenues over expenditures	4,993,026	8,415,973	12,987,070	4,571,097
Other financing uses				
Transfers out	(4,993,026)	(8,415,974)	(12,987,070)	(4,571,096)
Excess of revenues over expenditures and other financing uses	\$ -	\$ -	\$ -	\$ -
Fund balance at beginning of year			4,725,734	
Cancellation of unexpended prior year encumbrances			71,361	
Decrease in reserve for encumbrances			(517,220)	
Decrease in reserve for inventory			(265,995)	
Net accruals and adjustments			486,951	
Fund balance at end of year			\$ 4,500,831	

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit XI

SCHOOL GRANTS FUND
BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Original Budget	Budget as Amended	Actual (Budgetary Basis)	Variance with Amended Budget
				Positive (Negative)
Revenues				
Intergovernmental:				
From City of Portsmouth	\$ -	\$ 286,962	\$ 148,367	\$ (138,595)
From Commonwealth of Virginia	-	4,517,545	3,489,460	(1,028,085)
From federal government	-	13,121,243	13,869,403	748,160
Miscellaneous	-	222,220	125,224	(96,996)
Total revenues	-	18,147,970	17,632,454	(515,516)
Expenditures				
Education:				
Administration	-	2,237,892	1,200,746	1,037,146
Instruction	-	15,597,235	16,558,049	(960,814)
Operations and maintenance	-	372,982	621,717	(248,735)
Total education	-	18,208,109	18,380,512	(172,403)
Capital outlay	-	745,964	1,047,751	(301,787)
Total expenditures	-	18,954,073	19,428,263	(474,190)
Excess of revenues over expenditures	-	(806,103)	(1,795,809)	(989,706)
Other financing uses				
Transfers in	-	1,538,600	1,433,458	(105,142)
Excess of revenues over expenditures and other financing uses	\$ -	\$ 732,497	(362,351)	\$ (362,351)
Fund balance at beginning of year			1,184,296	
Net accruals and adjustments			<u>(1,468,460)</u>	
Fund balance at end of year	\$	(646,515)		

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit XII

SCHOOL FOOD SERVICES FUND
BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Original Budget	Budget as Amended	Actual (Budgetary Basis)	Variance with Amended Budget
				Positive (Negative)
Revenues				
Intergovernmental:				
From Commonwealth of Virginia	\$ 85,000	\$ 85,000	\$ 120,356	\$ 35,356
From federal government	4,200,000	4,200,000	4,354,447	154,447
Donated commodities from the federal government	340,000	340,000	399,348	59,348
Charges for services	1,550,000	1,550,000	1,408,694	(141,306)
Interest	-	-	150,485	150,485
Miscellaneous	365,000	365,000	469,440	104,440
Total revenues	6,540,000	6,540,000	6,902,770	362,770
Expenditures				
Food services	6,540,000	6,540,000	6,784,262	(244,262)
Capital outlay	-	-	120,496	(120,496)
Total expenditures	6,540,000	6,540,000	6,904,758	(364,758)
Deficiency of revenues over expenditures	\$ -	\$ -	(1,988)	\$ (1,988)
Fund balance at beginning of year			2,357,368	
Increase in reserve for inventory			<u>(1,509)</u>	
Fund balance at end of year			<u>\$ 2,353,871</u>	

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Exhibit XIII

SCHEDULE OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN (UNAUDITED)

Year Ended June 30, 2007

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded (Unfunded)		Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
			Actuarial Accrued Liability (UAAL)	Funded Ratio			
June 30, 2006	\$ 22,044,655	\$ 25,078,308	\$ (3,033,653)	87.90%	\$ 8,002,672		37.91%
June 30, 2005	21,058,942	24,171,379	(3,112,437)	87.12%		7,759,979	40.11%
June 30, 2004	21,286,570	23,502,940	(2,216,370)	90.57%		8,588,058	25.81%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30, 2007

1. BUDGETS AND BUDGETARY ACCOUNTING

The budget data reflected in the financial statements was created by the School Board using the procedures which follow:

- 1) The School Board submits to the City Council of the City a proposed operating budget for the General and Special Revenue Funds for the forthcoming fiscal year by April 1. The legal level of budgetary control rests at the fund level for the General and Special Revenue Funds. Management control is exercised over the budgets at the budgetary line item level.
- 2) The budgets are legally enacted through passage of an ordinance by the City Council 45 days prior to the end of the current fiscal year.
- 3) The School Board is authorized to make transfers between budgetary line items; however, revisions that alter the total expenditures of the total budget must be approved by the City Council.
- 4) The General and Special Revenue Funds have legally adopted annual budgets. The General and Special Revenue Fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States, except for the recognition of encumbrances as expenditures. Budgets related to the School Construction Fund are adopted on a project basis.
- 5) The School Board employs encumbrance accounting under which obligations in the form of purchase orders, contracts and other commitments for the expenditure of funds are reported as reservations of fund balances, since they do not constitute expenditures or liabilities. Appropriations with outstanding commitments or encumbrances are carried into the following year. According to the City of Portsmouth, Virginia Code, unexpended, unencumbered appropriations lapse at the end of the year.

SUPPLEMENTARY INFORMATION

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Schedule 1

COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS

June 30, 2007

	Print Shop	Risk Management	Total
ASSETS			
Current assets:			
Cash and temporary investments	\$ 574,927	\$ 3,617,192	\$ 4,192,119
Due from other funds	42,694	-	42,694
Due from other agencies	24,957	-	24,957
Inventories	74,904	-	74,904
Total current assets	717,482	3,617,192	4,334,674
Capital assets:			
Machinery and equipment	871,266	-	871,266
Less - accumulated depreciation	(866,911)	-	(866,911)
Total capital assets	4,355	-	4,355
Total assets	\$ 721,837	\$ 3,617,192	\$ 4,339,029
LIABILITIES			
Current liabilities:			
Claims payable - current portion	\$ -	\$ 1,281,648	\$ 1,281,648
Accounts payable	8,424	-	8,424
Total current liabilities	8,424	1,281,648	1,290,072
Noncurrent liabilities			
Claims payable - less current portion	-	964,829	964,829
Compensated absences	50,572	-	50,572
Total long-term liabilities	50,572	964,829	1,015,401
Total liabilities	58,996	2,246,477	2,305,473
NET ASSETS			
Invested in capital assets - net of related debt	4,355	-	4,355
Unrestricted	658,486	1,370,715	2,029,201
Total net assets	662,841	1,370,715	2,033,556
Total liabilities and net assets	\$ 721,837	\$ 3,617,192	\$ 4,339,029

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth,

Schedule 2

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
 FUND NET ASSETS (DEFICITS) - INTERNAL SERVICE FUNDS**

Year Ended June 30, 2007

	Print Shop	Risk Management	Total
Operating revenues			
Charges for services	\$ 886,614	\$ 2,535,917	\$ 3,422,531
Total operating revenues	<u>886,614</u>	<u>2,535,917</u>	<u>3,422,531</u>
Operating expenses			
Personnel services	345,850	-	345,850
Insurance claims and expenses	-	306,049	306,049
Contractual services	121,022	-	121,022
Repairs and maintenance	33,059	-	33,059
Other supplies and expenses	181,827	-	181,827
Depreciation and amortization	40,230	-	40,230
Total operating expenses	<u>721,988</u>	<u>306,049</u>	<u>1,028,037</u>
Operating income	<u>164,626</u>	<u>2,229,868</u>	<u>2,394,494</u>
Nonoperating revenue (expense)			
Interest income	-	99,044	99,044
Insurance recovery	-	2,656	2,656
Interest expense	(276)	-	(276)
Total nonoperating revenue (expense)	<u>(276)</u>	<u>101,700</u>	<u>101,424</u>
Change in net assets	<u>164,350</u>	<u>2,331,568</u>	<u>2,495,918</u>
Net assets (deficits) - beginning of year	<u>498,491</u>	<u>(960,853)</u>	<u>(462,362)</u>
Net assets - end of year	<u>\$ 662,841</u>	<u>\$ 1,370,715</u>	<u>\$ 2,033,556</u>

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Schedule 3

COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS

Year Ended June 30, 2007

	Print Shop	Risk Management	Total
Cash flows from operating activities			
Received from customers and users	\$ 898,884	\$ 2,535,916	\$ 3,434,800
Payments to suppliers for goods and services	(85,467)	(818,893)	(904,360)
Payments to employees	(604,154)	-	(604,154)
Net cash provided by operating activities	209,263	1,717,023	1,926,286
Cash flows from capital and related financing activities			
Principal paid on capital debt	(33,037)	-	(33,037)
Interest paid on capital debt	(276)	-	(276)
Net cash used in capital and related financing activities	(33,313)	-	(33,313)
Cash flows from investing activities			
Interest received	-	99,044	99,044
Insurance recovery	-	2,656	2,656
Net cash provided by investing activities	-	101,700	101,700
Net change in cash and temporary investments	175,950	1,818,723	1,994,673
Cash and temporary investments - beginning of year	398,977	1,798,469	2,197,446
Cash and temporary investments - end of year	\$ 574,927	\$ 3,617,192	\$ 4,192,119
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 164,626	\$ 2,229,868	\$ 2,394,494
Adjustments to reconcile net operating income to net cash provided by operating activities:			
Depreciation and amortization	40,230	-	40,230
Change in compensated absences	5,697	-	5,697
Change in assets and liabilities:			
Due from other governments	(11,621)	-	(11,621)
Due from other funds	(14,373)	-	(14,373)
Inventories	27,239	-	27,239
Vouchers and accounts payable	(2,535)	-	(2,535)
Claims payable	-	(512,845)	(512,845)
Total adjustments	44,637	(512,845)	(468,208)
Net cash provided by operating activities	\$ 209,263	\$ 1,717,023	\$ 1,926,286

Supplemental information on significant non-cash transactions:

There were no significant non-cash transactions

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of the City of Portsmouth, Virginia

Schedule 4

SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND - STUDENT ACTIVITIES

June 30, 2007

ASSETS	Balance			Balance June 30, 2007
	July 1, 2006	Additions	Deductions	
Cash and temporary investments	\$ 603,860	\$ 2,054,272	\$ 1,915,029	\$ 743,103
LIABILITIES				
Due to students	\$ 603,860	\$ 2,054,272	\$ 1,915,029	\$ 743,103

STATISTICAL SECTION

(Unaudited)

Table 1

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Net Assets by Component (unaudited)
Last Six Fiscal Years

	2007	2006	2005	2004	2003	2002
Primary government, governmental activities						
Invested in capital assets- net of related debt	\$ 44,931,980	\$ 36,504,731	\$ 38,854,790	\$ 37,412,004	\$ 34,173,737	\$ 33,554,689
Restricted	4,732,042	4,354,568	1,357,929	1,545,299	-	-
Unrestricted	9,034,546	5,990,678	4,757,151	4,910,804	8,854,713	5,668,611
Total primary government net assets	<u>\$ 58,698,568</u>	<u>\$ 46,849,977</u>	<u>\$ 44,969,870</u>	<u>\$ 43,868,107</u>	<u>\$ 43,028,450</u>	<u>\$ 39,223,300</u>

The School Board has no business-type activities.

Note: Governmental Accounting Standards Board Statement 34 was adopted as of July 1, 2001. Therefore, financial information for fiscal years prior to 2002 is not available.

Source: Comprehensive Annual Financial Report for respective fiscal years.

Table 2

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Changes in Net Assets (unaudited)
Last Six Fiscal Years

	2007	2006	2005	2004	2003	2002
Primary Government Expenses						
Governmental activities:						
Administration	\$ 3,808,174	\$ 3,386,754	\$ 3,086,711	\$ 3,416,935	\$ 2,656,805	\$ 2,827,948
Instruction	115,458,976	103,745,706	99,863,747	94,328,782	89,488,370	89,485,404
Attendance and health services	3,213,924	3,277,834	2,836,441	3,023,549	3,024,078	2,702,121
Pupil transportation	6,605,055	6,332,823	5,429,111	5,332,389	4,586,066	4,200,016
Operations and maintenance	14,914,931	16,498,396	15,652,607	15,047,717	15,782,128	14,159,569
Information technology	4,756,484	4,949,187	3,740,252	970,603	-	-
Food service	6,704,880	6,657,855	6,561,790	6,328,371	6,534,184	6,625,435
Interest on long-term debt	297,069	371,917	11,383	17,314	33,600	30,777
Total expenses	<u>155,759,493</u>	<u>145,220,472</u>	<u>137,182,042</u>	<u>128,465,660</u>	<u>122,105,231</u>	<u>120,031,270</u>
Program Revenues						
Governmental activities:						
Charges for services	2,778,245	2,777,414	2,414,995	2,795,732	2,906,650	2,350,445
Operating grants and contributions	51,351,840	45,767,845	43,419,115	37,082,937	39,891,583	39,421,499
Capital grants and contributions	1,688,185	1,912,088	2,345,261	4,627,153	4,354,378	10,176,902
Total program revenues	<u>55,818,270</u>	<u>50,457,347</u>	<u>48,179,371</u>	<u>44,505,822</u>	<u>47,152,611</u>	<u>51,948,846</u>
Primary government net expense	(99,941,223)	(94,763,125)	(89,002,671)	(83,959,838)	(74,952,620)	(68,082,424)
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Unrestricted grants and contributions	110,786,754	96,768,950	89,873,769	82,412,727	78,615,389	75,857,334
Investment earnings	793,957	630,641	199,291	90,611	112,636	181,064
Miscellaneous	209,103	27,774	31,374	14,637	29,745	10,605
Special Item	-	(784,133)	-	(116,789)	-	-
Total primary government	<u>111,789,814</u>	<u>96,643,232</u>	<u>90,104,434</u>	<u>82,401,186</u>	<u>78,757,770</u>	<u>76,049,003</u>
Change in Net Assets						
Total primary government	\$ 11,848,591	\$ 1,880,107	\$ 1,101,763	\$ (1,558,652)	\$ 3,805,150	\$ 7,966,579

The School Board has no business-type activities.

Note: Governmental Accounting Standards Board Statement 34 was adopted as of July 1, 2001. Therefore, financial information for fiscal years prior to 2002 is not available.

Source: Comprehensive Annual Financial Report for respective fiscal years.

Table 3

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Fund Balances, Governmental Funds (unaudited)
Last Six Fiscal Years

	2007	2006	2005	2004	2003	2002
General Fund						
Reserved	\$ 4,500,831	\$ 4,725,734	\$ 5,927,212	\$ 6,235,088	\$ 8,639,022	\$ 7,128,870
Total General Fund	<u>\$ 4,500,831</u>	<u>\$ 4,725,734</u>	<u>\$ 5,927,212</u>	<u>\$ 6,235,088</u>	<u>\$ 8,639,022</u>	<u>\$ 7,128,870</u>
All Other Governmental Funds						
Reserved	\$ 6,610,020	\$ 6,582,029	\$ 2,519,174	\$ 5,316,353	\$ 68,388	\$ 90,781
Unreserved, reported in:						
Special Revenue	1,428,003	2,419,975	2,081,584	1,715,781	2,355,468	2,409,253
Capital Projects	<u>2,882,639</u>	<u>1,679,660</u>	<u>18,277</u>	<u>(2,266,708)</u>	<u>2,022,253</u>	<u>411,373</u>
Total all other governmental funds	<u>\$ 10,920,662</u>	<u>\$ 10,681,664</u>	<u>\$ 4,619,035</u>	<u>\$ 4,765,426</u>	<u>\$ 4,446,109</u>	<u>\$ 2,911,407</u>

Note: Six years is presented to be consistent with the availability of data presented in Tables 1 and 2.

Source: Comprehensive Annual Financial Report for respective fiscal years.

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Changes in Fund Balances, Governmental Funds
Last Six Fiscal Years

	2007	2006	2005	2004	2003	2002
Revenues						
Intergovernmental						
Federal grants	\$ 18,013,124	\$ 18,255,075	\$ 17,608,987	\$ 16,115,547	\$ 15,919,634	\$ 14,534,710
Federal donated commodities	-	-	-	-	385,996	394,177
State grants and other	101,872,969	89,004,492	86,360,715	78,750,543	78,346,433	78,617,044
City of Portsmouth	42,936,433	36,939,444	31,543,601	28,802,407	28,166,130	31,563,811
Local						
Charges for services	1,408,694	1,425,495	1,388,465	1,383,724	1,534,025	1,429,548
Interest	759,818	557,804	174,968	74,954	107,714	179,058
Miscellaneous	1,984,185	1,761,915	1,393,791	1,658,997	1,400,470	1,344,498
Total Revenues	166,975,223	147,944,225	138,470,527	126,786,172	125,860,402	128,062,846
Expenditures						
Current						
Education						
Administration	3,851,694	3,367,420	3,077,453	3,065,160	2,641,677	2,795,487
Instruction	116,186,858	101,365,515	95,286,713	91,141,849	86,297,662	84,817,579
Attendance and health services	3,260,561	3,270,297	2,838,577	3,014,440	3,026,725	2,678,998
Pupil transportation	5,873,848	5,899,213	5,017,220	4,826,015	4,258,871	3,744,564
Information technology	4,741,880	4,858,538	3,680,937	921,747	-	-
Operation and maintenance	14,849,894	16,374,494	15,554,177	15,002,639	11,639,729	11,567,097
Food services	6,752,318	6,579,699	6,500,155	6,278,051	6,462,611	6,717,219
Debt service						
Principal	388,469	-	-	-	-	-
Interest	366,769	-	-	-	10,643	247,616
Capital outlay	10,688,837	9,853,137	6,955,168	7,063,486	8,102,289	14,095,068
Total Expenditures	166,961,128	151,568,313	138,910,400	131,313,387	122,440,207	126,663,628
Excess (deficiency) of revenues over expenditures	14,095	(3,624,088)	(439,873)	(4,527,215)	3,420,195	1,399,218
Other financing sources (uses)						
Transfers in	5,971,239	3,497,412	774,354	867,642	739,399	855,411
Transfers out	(5,971,239)	(3,497,412)	(774,354)	(867,642)	(739,399.00)	(855,411)
Total Other Financing Sources (Uses)	-	-	-	-	-	-
Total Net Change in Fund Balances	\$ 14,095	\$ (3,624,088)	\$ (439,873)	\$ (4,527,215)	\$ 3,420,195	\$ 1,399,218
Ratio of debt service expenditures to noncapital expenditures	0.49%	0.00%	0.00%	0.00%	0.01%	0.22%

Note: Six years is presented to be consistent with the availability of data presented in Tables 1 and 2.

Source: Comprehensive Annual Financial Report for respective fiscal years.

Table 5

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Demographic and Economic Statistics (unaudited)
Last Six Fiscal Years

Year	Population (1)	Personal Income (2) (thousands of dollars)	Per Capita Personal Income (3)	Median Age (4)	School Enrollment (6)	Unemployment Rate (5)
2007	99,546	*		34.8	14,990	4.30%
2006	*	*	*	34.8	15,243	*
2005	100,169	\$ 1,834,195	\$ 27,799	34.9	15,309	6.20%
2004	97,800	1,542,795	25,171	34.4	15,642	6.90%
2003	97,600	1,539,640	23,835	34.4	15,928	6.30%
2002	98,400	1,552,260	22,173	34.4	16,221	6.30%

* Information not available at this time

Note: Information for years prior to 2002 is not available.

Source: (1) - (5) City of Portsmouth Department of Economic Development

(6) Average daily membership submitted to the Virginia Department of Education

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Own-Source Revenue (unaudited)
Last Six Fiscal Years

	2007	2006	2005	2004	2003	2002
Enrollment						
Level						
Elementary	8,538	8,575	7,410	7,766	7,887	8,266
Middle	2,034	2,350	3,615	3,587	3,755	3,760
High	4,191	4,510	4,252	4,445	4,207	4,058
Special Centers	483	591	802	695	128	178
School Lunch Meals						
Full	642,493	635,614	577,682	653,222	660,768	707,094
Reduced	151,055	150,229	155,677	152,257	169,783	194,008
Free	993,511	1,030,888	1,060,674	1,022,152	1,077,868	1,124,657
Total	<u>1,787,059</u>	<u>1,816,731</u>	<u>1,794,033</u>	<u>1,827,631</u>	<u>1,908,419</u>	<u>2,025,759</u>
School Breakfast Meals						
Full	475,673	482,397	462,233	1,827,631	411,773	392,994
Reduced	122,279	119,640	113,906	426,531	110,177	108,858
Free	784,313	800,387	794,766	110,777	837,780	891,695
Total	<u>1,382,265</u>	<u>1,402,424</u>	<u>1,370,905</u>	<u>2,364,939</u>	<u>1,359,730</u>	<u>1,393,547</u>
School Lunch Price						
Full						
Elementary	\$ 0.85	0.85	0.75	0.75	0.65	0.65
Middle	\$ 0.95	0.95	0.85	0.85	0.75	0.75
High	\$ 0.95	0.95	0.85	0.85	0.75	0.75
Adult	\$ 2.00	2.00	1.75	1.75	1.50	1.50
Reduced	\$ 0.30	0.30	0.30	0.30	0.30	0.30
School Breakfast Price						
Elementary	Free	Free	Free	Free	Free	Free
Middle	Free	Free	Free	Free	Free	Free
High	Free	Free	Free	Free	Free	Free
Adult	\$ 2.00	\$ 0.60	0.50	0.50	0.50	0.50

Note: Information for years prior to 2002 is not available.

Source: Portsmouth Public Schools - Food Services Division & SASI Software

Table 7

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Employees by Class Code (unaudited)
Last Six Fiscal Years

Employee Count:	2007	2006	2005	2004	2003	2002
School board members	9	9	9	9	8	9
Superintendent	1	1	1	1	1	1
Assistant superintendents	2	2	2	2	2	3
Directors	10	10	8	7	7	7
Coordinators	11	12	13	13	13	14
Education specialists	6	5	10	11	12	14
Supervisors	38	35	28	23	16	15
Principals	25	25	25	25	24	27
Assistant principals	33	31	32	30	30	30
Teachers	1,131	1,149	1,165	1,142	1,143	1,193
Guidance and other counselors	46	47	47	49	43	43
Librarians	23	25	26	27	29	29
Speech therapists	26	-	14	17	20	22
School social workers	8	8	8	8	10	9
Home school liaisons	4	10	3	14	12	12
Medical staff	31	31	29	29	30	35
Psychologists	11	10	9	11	11	10
Secretaries	168	160	160	154	156	162
Paraprofessionals	268	298	291	322	318	336
Bus drivers and monitors	170	167	169	168	167	169
Operations and maintenance staff	201	200	201	209	205	217
School crossing guards	36	39	43	45	42	46
In school suspension	7	8	7	6	6	7
Special police officers	18	21	16	22	20	22
Print shop personnel	5	4	4	4	4	4
Cafeteria staff	147	161	151	170	174	182
Purchasing personnel	1	5	2	2	-	-
Other	10	-	23	1	7	8
	2,446	2,473	2,496	2,521	2,510	2,626

Note: Information for years prior to 2002 is not available.

Source: Portsmouth Public Schools Budget and Planning Department

Table 8

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Teachers - Total Number, Average Age, Average Salary (unaudited)

For the Year Ended June 30, 2007

	# of Teachers	Average Teacher Age	Average Teacher Salary	Education Level			
				BA	MA	CAS	PHD
Elementary	534	42.8	\$ 45,376	197	324	11	2
Middle	202	44.9	45,100	123	76	2	1
High	287	46.6	45,128	157	119	7	4
Other	22	46.9	49,637	7	4	10	1

For the Year Ended June 30, 2006

	# of Teachers	Average Teacher Age	Average Teacher Salary	Education Level			
				BA	MA	CAS	PHD
Elementary	628	42.5	\$ 44,048	374	244	8	2
Middle	195	44.3	44,675	134	58	2	1
High	285	45.9	45,941	185	92	5	3
Other	28	45.8	49,934	17	10	1	0

Note: Information for years prior to 2006 is not available.

Source: Portsmouth Public Schools - Human Resource Department

Table 9

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Capital Assets Statistics (unaudited)
Last Six Fiscal Years

	2007	2006	2005	2004	2003	2002
Building						
Elementary	17	17	17	17	18	18
Middle	3	4	5	5	5	5
High	3	3	3	3	3	3
Other	3	3	3	3	3	3
Fleet						
School Buses	144	130	129	143	130	144
Other	59	65	63	55	58	57
Athletics						
Football Fields	2	2	2	2	2	2
Running Tracks	2	3	3	3	3	3
Baseball/Softball	3	3	3	3	3	3
Playgrounds	15	17	17	17	18	18

Note: Information for years prior to 2002 is not available.

Sources:

- Portsmouth Public Schools - Transportation Division
- Portsmouth Public Schools - Athletics Department
- Portsmouth Public Schools - Operations Division

Table 10

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

School Building Information (unaudited)
Last Six Fiscal Years

	2007	2006	2005	2004	2003	2002
Elementary Schools:						
Brighton (1959)						
Square feet	56,566	33,564	33,564	33,564	33,564	33,564
Capacity (Students)	539	539	539	320	320	320
Enrollment	701	660	571	304	319	335
Churchland Academy (1986)						
Square feet	96,000	96,000	96,000	96,000	96,000	96,000
Capacity (Students)	914	914	914	914	914	914
Enrollment	1,042	1,033	917	947	979	1,062
Churchland Elementary (1958)						
Square feet	66,586	61,612	61,612	61,612	61,612	61,612
Capacity (Students)	634	634	587	587	587	587
Enrollment	721	644	543	578	563	585
Churchland Primary (1976)						
Square feet	63,800	63,800	63,800	63,800	63,800	63,800
Capacity (Students)	608	608	608	608	608	608
Enrollment	598	606	530	520	589	557
S.H. Clarke Academy (1957)						
Square feet	108,200	108,200	108,200	108,200	108,200	108,200
Capacity (Students)	1,030	1,030	1,030	1,030	1,030	1,030
Enrollment		498	517	516	509	523
Douglass Park (2002)						
Square feet	73,855	73,398	73,398	73,398	73,398	73,775
Capacity (Students)	703	906	703	703	703	703
Enrollment	679	774	668	689	681	576
Victory Elementary						
Square feet	78,142	51,613	51,613	51,613	51,613	51,613
Capacity (Students)	744	492	492	492	492	492
Enrollment	347	*	*	*	*	355
Hodges Manor (1956)						
Square feet	50,133	47,633	47,633	47,633	47,633	47,633
Capacity (Students)	477	477	454	454	454	454
Enrollment	526	485	401	475	481	473

Table 10

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

School Building Information (unaudited)
Last Six Fiscal Years

	2007	2006	2005	2004	2003	2002
Elementary Schools (continued):						
James Hurst (1978)						
Square feet	63,525	63,525	63,525	63,525	63,525	63,525
Capacity (Students)	605	605	605	605	605	605
Enrollment	755	791	622	709	758	751
Lakeview (1967)						
Square feet	60,009	54,349	54,349	54,349	54,349	54,349
Capacity (Students)	605	572	518	518	518	518
Enrollment	664	641	489	544	531	572
Mt. Hermon (1958)						
Square feet	47,349	47,349	47,349	47,349	47,349	47,349
Capacity (Students)	451	451	451	451	451	451
Enrollment	260	252	244	171	189	202
Olive Branch (1960)						
Square feet	32,700	30,700	30,700	30,700	30,700	30,700
Capacity (Students)	311	311	311	311	311	311
Enrollment	464	428	342	350	367	376
Park View (1957)						
Square feet	31,748	26,548	26,548	26,548	26,548	26,548
Capacity (Students)	302	302	302	302	302	302
Enrollment	398	394	357	344	333	333
Port Norfolk (1957)						
Square feet	28,700	28,700	28,700	28,700	28,700	28,700
Capacity (Students)	273	273	273	273	273	273
Enrollment	*	*	*	*	*	250
Simondale (1946)						
Square feet	33,300	33,300	33,300	33,300	33,300	33,300
Capacity (Students)	317	317	317	317	317	317
Enrollment	284	286	278	281	303	295
Emily Spong (1957)						
Square feet	30,206	30,206	30,206	30,206	30,206	30,206
Capacity (Students)	288	288	288	288	288	288
Enrollment	182	179	186	189	207	218

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

School Building Information (unaudited)
Last Six Fiscal Years

	2007	2006	2005	2004	2003	2002
Elementary Schools (continued):						
John Tyler (2002)						
Square feet	106,749	106,749	106,749	106,749	106,749	106,749
Capacity (Students)	581	597	546	546	546	367
Enrollment	660	689	628	604	568	319
Westhaven (1954)						
Square feet	65,077	64,671	64,671	64,671	64,671	64,667
Capacity (Students)	620	797	620	620	620	620
Enrollment	598	646	547	545	510	484
Middle Schools:						
Churchland (1970)						
Square feet	136,937	136,937	136,937	136,937	136,937	136,937
Capacity (Students)	1,141	1,141	1,141	1,141	1,141	1,141
Enrollment	888	967	1,136	1,095	1,195	1,105
Cradock (1954)						
Square feet	106,220	103,420	103,420	103,420	103,420	103,420
Capacity (Students)	885	885	885	885	885	885
Enrollment	584	719	663	581	624	706
Hunt/Mapp (1955)						
Square feet	235,946	235,946	235,946	235,946	235,946	235,946
Capacity (Students)	-	-	1,966	1,966	1,966	1,966
Enrollment	*	*	1,097	1,172	1,159	1,117
William E. Waters (1966)						
Square feet	104,601	104,601	104,601	104,601	104,601	104,601
Capacity (Students)	872	872	872	872	872	872
Enrollment	562	664	719	739	777	832
High Schools:						
Churchland (1992)						
Square feet	262,152	262,152	262,152	262,152	262,152	262,152
Capacity (Students)	1,871	1,871	1,871	1,871	1,871	1,871
Enrollment	1,639	1,859	1,745	1,813	1,721	1,553
I. C. Norcom (1998)						
Square feet	280,812	280,000	280,000	280,000	280,000	280,000
Capacity (Students)	2,006	2,006	2,006	2,006	2,006	2,006
Enrollment	1,402	1,319	1,221	1,321	1,267	1,237

Table 10

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

School Building Information (unaudited)
Last Six Fiscal Years

	2007	2006	2005	2004	2003	2002
High Schools (continued):						
Woodrow Wilson (1971)						
Square feet	261,665	261,655	261,655	261,655	261,655	261,655
Capacity (Students)	1,869	1,869	1,869	1,869	1,869	1,869
Enrollment	1,150	1,332	1,286	1,311	1,219	1,268
Centers - Excel Campus						
Enrollment	101	80	141	140	128	178

* School was closed.

Note: Information for years prior to 2002 is not available.

Sources: SASI student information database
 Portsmouth Public Schools - Operations Division

Table 11

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Principal Employers (unaudited)
Prior Years

Employer	2006		2005		2004		2003		2002	
	Employees	Percentage of Total City Employment								
Norfolk Naval Shipyard	7,700	16.95%	7,600	16.85%	7,600	15.97%	7,800	16.66%	7,800	16.81%
Naval Medical Center	5,400	11.89%	5,463	12.11%	5,463	11.48%	5,000	10.68%	5,000	10.78%
City of Portsmouth	2,500	5.50%	2,542	5.64%	2,700	5.67%	2,801	5.98%	2,801	6.04%
Portsmouth Public Schools	2,558	5.63%	2,500	5.54%	2,448	5.14%	2,406	5.14%	2,406	5.19%
Maryview Medical Center, Bon Secours	2,200	4.84%	2,200	4.88%	2,000	4.20%	1,987	4.25%	1,987	4.28%
US Fifth District Coast Guard Command	1,500	3.30%	1,500	3.33%	1,400	2.94%	1,900	4.06%	1,900	4.10%
Alternative Behavioral Services	800	1.76%	800	1.77%	800	1.68%	700	1.50%	700	1.51%
Southeastern Public Service Authority	500	1.10%	473	1.05%	473	0.99%	420	0.90%	420	0.91%
Gwaltney of Smithfield	485	1.07%	440	0.98%	520	1.09%	504	1.08%	504	1.09%
Earl Industries LLC	500	1.10%	414	0.92%	850	1.79%	400	0.85%	400	0.86%
CDI Marine Co. Inc.	290	0.64%	290	0.64%	290	0.61%	176	0.38%	176	0.38%
Moon Engineering Co., Inc.							204	0.44%	204	0.44%
WAVY-TV	187	0.41%	187	0.41%	187	0.39%	184	0.39%	184	0.40%
Renaissance Portsmouth Hotel	161	0.35%	161	0.36%	161	0.34%	225	0.48%	225	0.48%
Universal Maritime Services Corp.							160	0.34%	160	0.34%
John E. Hall Electrical Construction	130	0.29%	130	0.29%	150	0.32%	150	0.32%	150	0.32%
Lindab, Inc.	140	0.31%	115	0.25%	134	0.28%	142	0.30%		
Total	25,051	55.14%	24,815	55.01%	25,176	52.91%	25,159	53.75%	25,017	53.92%
Civilian Labor Force	45,435		45,108		47,582		46,807		46,398	

* 2007 data unavailable at this time.

Note: Information for years prior to 2002 is not available.

Source: City of Portsmouth Department of Economic Development

Table 12

CITY OF PORTSMOUTH, VIRGINIA SCHOOL BOARD
Component Unit of City of Portsmouth, Virginia

Operating Statistics (unaudited)
Last Six Fiscal Years

Year	Expenditures	School Enrollment	Cost per Pupil	Percentage Change	Teaching Staff	Pupil/Teacher Ratio
2007	159,162,386	14,990	\$ 10,618	12.23%	1,131	13.25
2006	144,216,707	15,243	9,461	6.00%	1,149	13.27
2005	136,647,163	15,309	8,926	8.56%	1,165	13.14
2004	128,606,981	15,642	8,222	7.58%	1,142	13.70
2003	121,734,640	15,928	7,643	2.96%	1,143	13.94
2002	120,408,689	16,221	7,423	*	1,193	13.60

* Information not available at this time

Note: Expenditures only include General and Special Revenue Funds.
Information for years prior to 2002 is not available.

Source: Portsmouth Public Schools Human Resources and Finance Departments

COMPLIANCE SECTION



***Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With Government Auditing Standards***

Members of the School Board
City of Portsmouth, Virginia School Board

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Portsmouth, Virginia School Board (the School Board), a component unit of the City of Portsmouth, Virginia, as of and for the year ended June 30, 2007, which collectively comprise the School Board's basic financial statements and have issued our report thereon dated November 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Portsmouth, Virginia School Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Portsmouth, Virginia School Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Portsmouth, Virginia School Board's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Portsmouth, Virginia School Board's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters that we have reported to management of the School Board in a separate letter dated November 27, 2007.

This report is intended solely for the information and use of City of Portsmouth, Virginia School Board, management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Cherry, Bekant & Holland, L.L.P.

Virginia Beach, Virginia
November 27, 2007